Joint Committee on Taxation
May 12, 1983
JCX-11-83

WITHHOLDING ON INTEREST AND DIVIDENDS

(Scheduled for Markup by Committee on Ways and Means on May 12, 1983)

Present Law

Generally, present law (enacted in the Tax Equity and Fiscal Responsibility Act of 1982--TEFRA) provides for a system of withholding on payments of dividends, patronage dividends, and interest to individuals (other than certain low-income and elderly individuals) at a rate of 10 percent to take effect on July 1, 1983. Withholding also will be required on payments to unincorporated entities, such as partnerships and estates, which are not themselves required to withhold on payments to individuals.

Exemptions from withholding are specifically provided for various types of payments, including: (1) payments to individuals who had tax liability in the preceding year of $600 or less ($1,000 in the case of a joint return); (2) payments to persons age 65 or older whose tax liability in the preceding year was $1,500 or less ($2,500 in the case of a joint return); (3) at the payor's election, payments which do not exceed $150 and which would not exceed $150 on an annual basis; (4) payments to corporations, governments, security dealers, money market funds, exempt organizations, and nominees or custodians; (5) payments to trusts that must distribute all of their income currently, if all the beneficiaries are individuals who could qualify as exempt individuals on the basis of their prior year's tax liability, and exempt organizations or individual retirement plans; and (6) certain payments by consumer cooperatives.

Under Treasury regulations, banking institutions may elect to defer withholding to the end of the year with respect to payments of interest on most deposit and transaction accounts. In implementing the withholding deposit requirements, the Treasury is required to take into account the costs incurred by payors in instituting withholding. The Treasury's regulations provide an extended period for making otherwise required deposits of 19 banking days. Thus, payors may retain withheld amounts for an average of one calendar month before depositing them. This extended period is available to all payors through June 1984.

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After June 1984, medium and small banking organizations will have the extended deposit period for an additional one and two years, respectively. Further, the Secretary may exempt any payor from the withholding requirement, but not beyond 1983, if complying with the requirement prior to January 1, 1984, would impose an undue hardship on the payor.

Revenue Estimates

The revenue estimates for the withholding provisions enacted in TEFRA show anticipated increases in receipts for the fiscal years 1983 through 1988 in the following table (in millions of dollars):

	Fiscal Years						
	1983	1984	1985	1986	1987	1988	1983-1988
Withholding:							
Speedup.....	150	462	42	40	54	56	804
Compliance....	119	2,047	2,427	2,506	2,619	2,835	12,553
Total withholding	269	2,509	2,469	2,546	2,673	2,891	13,357
Reporting.....	43	287	674	937	1,175	1,266	4,382
Total.....	312	2,796	3,143	3,483	3,848	4,157	17,739

The current estimate is significantly lower than that provided when TEFRA was enacted for two principal reasons:

(1) the IRS updated its compliance estimates and concluded that certain constructive dividends should not have been included in the original revenue estimate base; and

(2) the Treasury by regulations made two changes in rules contemplated at time of enactment which together reduced anticipated revenues by $5.0 billion. These were an expansion of year-end withholding and a delay in implementation of withholding and information reporting on original issue discount until January 1, 1984.

The sources of the projected revenue increase are set forth in the following table (in billions of dollars):

	Fiscal Years						
	1983	1984	1985	1986	1987	1988	1983-1988
Withholding:							
Interest	*	0.7	1.6	1.7	1.7	1.8	7.6
Dividends	0.2	1.8	0.8	0.9	1.0	1.1	5.8
Total withholding .	0.3	2.5	2.5	2.5	2.7	2.9	13.4
Reporting (compliance)	*	0.3	0.7	0.9	1.2	1.3	4.4
Grand Total	0.3	2.8	3.1	3.5	3.8	4.2	17.7

* Less than $50 million

Note: Details may not add to totals due to rounding.

Within the interest compliance component, a further break-out is possible. For example, for calendar year 1985, $1.7 billion of the compliance increase is attributable to interest withholding. Of this amount, $0.4 billion is attributable to bonds and securities held by both filing and nonfiling taxpayers, $1.0 billion is attributable to bank and similar interest received by taxpayers failing to file returns, and $0.3 billion is attributable to interest received by persons filing tax returns.

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